

# Management Strategies in Tax Planning and Transfer Pricing in Nigeria

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## Abstract

This study examines management strategies in tax planning (tax planning, tunneling incentives, bonus incentives) and transfer pricing within the framework of multinational corporations (MNCs) operating in Nigeria. Employing regression analysis on secondary data sourced from the financial statements of selected MNCs. The study's findings reveal a significant positive correlation between effective tax rates (ETR), indicative of tax planning, and related party transactions (RPT), have significant effect on transfer pricing activities. Additionally, a significant positive correlation emerges between tunneling incentives (TI) and related party transactions (RPT). Furthermore, a positive relationship is identified between bonus incentives (BI) and related party transactions (RPT). The study concludes that there are significant positive links between management strategies and transfer pricing in Nigeria. The study recommends that those overseeing MNC affairs should incentivize companies to engage in responsible tax planning adhering to international standards, promoting a harmonious balance between competitiveness and fiscal responsibility.

**Key words:** Transfer Pricing; Tax Planning; Tunneling Incentives; Bonus Incentives.

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## INTRODUCTION

Multinational companies (MNCs) navigate the complexities of operating in diverse countries with distinct regulations, tax laws, and business environments. Effective management across these locations demands a comprehensive strategy and a carefully crafted transfer pricing policy to strike a balance between global integration and local adaptation (Sageder & Feldbauer-Durstmüller, 2019). While standardized processes enhance efficiency, adapting to local nuances is critical for success. The strategy should be sensibly decide when to regulate and when to concentrate on operations, considering a range of risks, including political, economic, and regulatory, intrinsic in operating across borders (Meyer et al., 2020).

Transfer pricing, crucial for MNCs, involves determining the prices for goods, services, and intellectual property transferred among entities within the same multinational group. It aims to fairly allocate income and expenses while complying with tax regulations (Hassnain et al.,

2018). Adhering to the principle of arm's length, this indicates that pricing transactions between related firms as if they were distinct is fundamental. MNCs should set up and record a transfer pricing policy conforms to this principle to avert tax evasion and regulatory inspection. Comprehensive documentation, including benchmarking studies and economic analyses, is necessary to support these policies and ensure compliance with local and international regulations (Abbas & Eksandy, 2020).

To offer assurance and reduce disputes, MNCs should employ negotiations with tax authorities to secure Advance Pricing Agreements (APAs) determining suitable transfer pricing methodologies in advance (Kramer & Wrappe, 2023). On the other hand, achieving tax efficiency should not compromise compliance with laws and regulations in each jurisdiction. Striking a balance between tax optimization and adherence to regulations is crucial for maintaining a positive relationship with tax authorities (Kalra & Afzal, 2023).

The management strategy in tax planning and transfer pricing policies of MNCs are pivotal in the global business landscape, influencing economic development, job creation, and local economies. Examining how these companies align their strategies with transfer pricing regulations is essential, especially as governments worldwide intensify scrutiny of MNCs' tax practices (Sebele-Mpofu et al., 2021). Management strategies, including tax planning, tunneling incentives, and bonus mechanisms, impact transfer pricing policies. However, existing literature lacks conclusive findings on the effects of these strategies on transfer pricing policies, especially in developing countries like Nigeria (Fazwa et al., 2022; Amidu et al., 2019).

The study aims to fill this gap by investigating the significant relationship between transfer pricing evaluation and management strategies (tax planning, tunneling incentives, and bonus mechanisms) of listed Multinational Corporations in Nigeria. The main objective is to examine the effects of these management strategies in tax planning on the international transfer pricing policy of MNCs in Nigeria. The study comprises five sections: literature reviews covering conceptual, theoretical, and empirical aspects; methodology; data analysis; and conclusion and recommendations.

## **CONCEPTUAL REVIEW**

### **Transfer pricing**

According to Amidu et al. (2019), transfer pricing is an essential practice for multinational companies, involving the setting of prices for internal transactions to maximize global profits by reducing tax payments. On the other hand, this can be misused when firms conduct transactions with related entities at inflated prices due to different tax jurisdictions (Cristea & Nguyen, 2016). According to Yair et al. (2014), tax planning, a key element of management strategies, aims to legally reduce tax payments and increase profits. Companies often use transfer pricing to shift tax burdens from high-tax countries to lower-tax jurisdictions. This study examines the influence of various management strategies, including tax planning, tunneling incentives, and bonus mechanisms, on the transfer pricing policies of listed multinational corporations in Nigeria. Hartati et al. (2015) argued that tax planning, tunneling incentives significantly impact transfer pricing. Controlling shareholders use tunneling

incentives to gain private benefits, such as diverting company resources for personal advantage (Hartati et al., 2015). This resource transfer can occur through methods like transfer pricing, asset sales, and lending. Firms often engage in tunneling to reduce transaction costs, especially with related parties, as it is more economical than dealing with unrelated parties (Marfuah & Azizah, 2014).

### **Management Strategies in Tax Planning**

Management strategies play a crucial role in tax planning, especially concerning tunneling incentive, bonus incentive, and transfer pricing. Effectively navigating these aspects requires a comprehensive approach to optimize financial outcomes while ensuring compliance with tax regulations. Tax planning, a strategic action to reduce tax expenses within legal frameworks, is considered a key element of tax management (Razali et al., 2019). It is aimed at eliminating, reducing, minimizing, or deferring income tax, contributing to the overall tax management process, which involves planning, organizing, directing, and controlling resources to achieve company performance goals (Clarasati, 2019).

### **Tax planning**

Tax planning refers to the process of strategically organizing one's financial affairs to minimize the tax liability legally and efficiently. The primary goal of tax planning is to take advantage of available tax incentives, deductions, credits, and exemptions to optimize financial outcomes. This involves making informed decisions about various financial activities, investments, and transactions to reduce the overall tax burden (Abbas & Eksandy, 2020). Effective tax management, including tax planning, can legally decrease a company's tax payment, ultimately reducing the Effective Tax Rate (ETR) (Bimo et al., 2019). Tax planning offers three approaches for taxpayers to reduce their tax burden. Firstly, tax avoidance involves legal arrangements to minimize tax payments, often leveraging loopholes or inconsistencies in tax laws. Secondly, tax evasion refers to illegal attempts by taxpayers to hide the real situation and avoid taxes, carrying high risks and potential legal sanctions. It is strongly discouraged as a tax planning strategy. Lastly, tax savings focus on reducing the tax burden by selecting alternative tax impositions with lower rates, enhancing the efficiency of the tax burden without violating legal boundaries (Fazwa & Islahuddin, 2022). These tax planning methods contribute to the broader discussions on the impact of management strategies on transfer pricing policies within the context of multinational corporations in Nigeria.

### **Tunneling Incentive**

Tunneling incentive is an activity carried out by the majority shareholder to transfer company assets and profits, but the minority shareholder bears the cost (Hidayat et al., 2019). Investments of 20% or more of a company's capital are considered to have a significant impact on other companies, either directly or indirectly through regulations (PSAK 15, 2017). According to Brundy et al. (2016) "Tunneling incentive appears in two forms. First, the majority shareholder can move wealth from the subsidiary company to himself through transactions between companies and the majority shareholders of the company. The transaction can be carried out with asset sales, excessive contract compensation for executive

compensation, lending, and others. The second form is that majority shareholders can increase their share of the company without transferring assets by issuing shares or interacting in other financial transactions that result in losses for minority shareholders” (Brundy et al., 2016).

### **Bonus Mechanism**

Bonus mechanism is a component of the calculation of the amount of bonus given by the owner of the company or shareholders through the Shareholders General Meeting for members of the board of directors who are considered to have a good performance every year and when the company makes a profit (Osho et al., 2021). The bonus mechanism, which is based on the amount of profit, will make the directors attempt to manipulate the profit and even perform actions that regulate the net profit in order to be able to maximize the bonus they receive.

A management strategy involving a bonus plan can significantly influence transfer pricing within a company. Transfer pricing refers to the prices set for transactions between different units or divisions within the same organization. Bonus plans are often tied to financial performance metrics, such as profitability. Managers may be incentivized to set transfer prices that enhance the reported profitability of their respective units, potentially leading to distortions in the allocation of costs and revenues among internal divisions. If the bonus structure emphasizes individual unit performance without considering the overall corporate goals, there is a risk that transfer prices may be set to optimize individual unit performance rather than the overall efficiency of the company (Cahyani et al., 2023).

Depending on the bonus structure, managers might engage in more aggressive or risk-taking behavior to achieve higher profits for their units. This behavior can extend to transfer pricing decisions, where managers may set prices that favor their units at the expense of others, potentially distorting the allocation of resources and profits. Bonus plans can influence collaboration and coordination among different units. If bonuses are based solely on individual unit performance, there might be less incentive for units to work together, leading to suboptimal transfer pricing decisions that do not necessarily benefit the organization as a whole (Tambunan et al., 2023).

### **Theoretical Review**

#### **Stakeholders Theory**

Stakeholder theory was developed by Freeman in 1980, provides a motive to minimize the information asymmetry between the management and the stakeholders by meeting stakeholders’ expectations concerning financial performance through sound transfer pricing evaluation. In addition, the theory has been generally employed in accounting literature as providing strong justification for transfer pricing evaluation and strategic management in order to achieve organizational goals (Abbas & Eksandy, 2020). This is because stakeholders are powerful over the company’s resources and they are interested in business activities of the companies (Merliyana & Saodah, 2019). Furthermore, stakeholder theory provides mean of dealing with multiple stakeholders with multiple conflicting interests. Managing these conflicts necessitates the utilization of financial reporting, particularly the annual financial statement, by managers to communicate with stakeholders (Hassnain et al., 2018).

Conclusively, stakeholder theory regards management's strategy as a means of managing stakeholders in order to gain support and approval for the organization's continued existence (Adams & Drtina, 2010). However, Fama and Jensen (1983) concluded that stakeholders within large corporations could use 'expert boards' to delegate decision management functions and internal agents but still have control over the internal agents. According to them, the board has the right to observe most important policy initiatives and to hire, fire and set the compensation level of top managers. The assertion of stakeholder theory is that financial reporting serves as an instrument to organize a managers' output and that the managers are stimulated to voluntarily disclose information on transfer pricing decision (Okwoma, 2014). Hence, management is required to reduce information asymmetry and make their actions more transparent by disclosing more information on transfer pricing to decrease conflicts of interest (Gevoian, 2013).

### **Signaling Theory**

Signaling theory provides an explanation to reporting as a mechanism geared towards reducing information asymmetry and promoting efficient capital market due to the separation between ownership and management (Cristea & Nguyen, 2013). Signaling theory is used to describe the behaviour when two parties (investors or organisations) have access to different information (Veres, 2011). The theory also takes root in the idea of information asymmetry (Gupta, 2012). Signal theory is based on two assumptions: first, managers are better informed than the stakeholders concerning a firm's position. Secondly, managers have the information advantage which they can choose to disclose, transfer pricing information in order to send signals to the stakeholders regarding the firm position.

Financial reporting is a signaling instrument that reports firm's performance to investors and financial analysts (KPMG, 2010). Signaling theory suggests that profitable, large and experience firms will disclose more transfer pricing information to inform their stakeholders about their sound performance (Mckinley & Owsley, 2013). Omirigbe and Ibrahim (2018) argue that multinational corporations should be willing to provide all the necessary information that will assist the investors in decision making.

Based on examined theories, this study is anchored on signaling theory because it provides an explanation to reporting as a mechanism geared towards reducing information asymmetry and promoting efficient capital market due to the separation between ownership and management.

### **Empirical Review**

The study about Tax Planning, Tunneling Incentive, Intangible Assets, Profitability and Transfer Pricing has mixed results.

Cahyani et al. (2023) examine the influence of the tax load, bonus plan, and tunneling incentive partially and simultaneously on the transfer pricing decision. The research used a quantitative method with the ex post facto design. The population in this study was companies that were members of the Jakarta Islamic Index (JII) in 2018- 2020. The research sample was selected using purposive sampling of 11 companies from 30 companies. This study used secondary data obtained from the Indonesia Stock Exchange. The data analysis technique used was multiple

linear regression analysis with SPSS 26 program. The results showed that the f test of the tax load, bonus plan, and tunneling incentive simultaneously had a significant effect on the transfer pricing decision. Meanwhile, the results of the t-test showed that the tax load did not affect the transfer pricing decision. The bonus plan had a significant negative effect on the transfer pricing decision. The tunneling incentive had a significant positive effect on the transfer pricing decision

Tambunan et al. (2023) examined the effect of Income Tax, Tunneling Incentives, and Bonus Mechanisms with Profitability as a Moderating variable on Transfer Pricing decisions in manufacturing companies listed on the Indonesia Stock Exchange in 2016-2020. The population in this study amounted to 182 companies. The sampling method used in this study was purposive and obtained 46 sample companies which became the object of research. This type of research is descriptive quantitative with classical assumption testing and Multiple Regression Analysis (MRA) tests which use two regression equations. The analysis results show that Income Tax has a significant negative effect on Transfer Pricing decisions, Tunneling Incentive has a significant negative effect on Transfer Pricing decisions, Bonus Mechanism has a significant negative effect on Transfer Pricing decisions

Fazwa and Islahuddin (2022) examine the influence of tax planning, tunneling incentive, intangible asset, and profitability on transfer pricing decisions. This study tested the hypotheses in food and beverage companies listed in Indonesia Stock Exchange (IDX) from 2016 to 2020. By using the purposive sampling technique, 12 out of 33 companies in the food and beverage sector were taken as a sample with a total of 60 data observations. The data was then analyzed through multiple linear regression analysis. The results of this study revealed that all independent variables simultaneously affect the dependent variable. Partially, the finding of tax planning and tunneling incentive has a positive effect but not significant on transfer pricing. However, intangible asset and profitability has a positive and significant effect on transfer pricing, means that intangible asset and profitability is engaged on transfer pricing decisions of food and beverage companies listed in Indonesia Stock Exchange (IDX).

A study conducted by Noviasatika et al. (2016) showed a significant and positive effect between transfer pricing, Taxes, Tunneling Incentive, and Good Corporate Governance of multinational companies listed in the Indonesia Stock Exchange. This finding related with study of Murtanto and Bonita (2021); Cindy and Novyarni (2020). They found that Taxes positively affected the transfer pricing decision of manufacturing companies in Indonesia. However, Darma et al. (2020); Hidayat et al. (2019); Khotimah et al. (2018); Susanti et al. (2018) revealed that taxes have a negative effect on transfer pricing. Furthermore, According to Alfin et al. (2018) tunnelling incentives have a positive effect on decisions transfer pricing. Meanwhile, Wijaya & Amalia (2020); Khotimah (2018); Saifudin et al. (2018) revealed that tunneling incentives have no effect on transfer pricing. Another, a study conducted by Eling and Abdullah (2018) asserted that profitability positively affects the company's decision to practice transfer pricing. However, A study conducted by Deanti et al. (2018) found that profitability has a negative effect on transfer pricing. Based on the inconsistency of the previous studies' results, the author feels it is needed to test back the factors which can influence transfer pricing decisions.

**METHODOLOGY**

This study adopted an ex-post facto research design, this study collected data from the annual reports and corporate website of selected listed multinational corporations in Nigeria. This is as a result of the fact that annual reports are audited, most consistent, reliable and regular medium to communicate with stakeholders.

The population for the study comprises of the entire listed multinational companies in Nigeria Stock Exchange as of December, 2022. The firms cut across those in the banking, consumer, construction, consulting, conglomerate, health and wellness, agriculture, manufacturing, non-profit making, oil and gas and telecommunication firms. The choice of the listed multinational corporations was as a result of their positive impact on the nation’s economy. The study utilized 30 listed multinational firms as sample size using purposive sampling technique. Purposive sampling technique was premised on the availability of requisite data that meet regulatory and mandatory disclosure requirement. The annual reports of the sampled firms covered the periods of year 2012 to 2022 were utilized due to heightened interest and increase transfer pricing awareness noticed among multinational companies during these periods. A panel least square regression analysis was employed.

For the purpose of measuring the relationship between dependent and independent variables, an econometric model was formulated. The functional model is as follows:

TPP = f (MSP) where MSP is decomposed as RPT as a proxy of transfer pricing (TP) while ETR (Effective Tax Rate for TP), BI; The equation is expressed as

$$RPT = f([ETR, TI, BI]) \dots \dots \dots \text{Eq. (1)}$$

$$RPT = \beta_0 + \beta_1 ETR_{it} + \beta_2 TI_{it} + \beta_3 BI_{it} + \mu_{it} \dots \dots \dots \text{Eq (2)}$$

Where TPP= Transfer Pricing; MSP= Management Strategies in Tax Planning; RPT= Related Party Transaction; ETR = Effective Tax Rate; TI= Tunneling Incentive; and BI= Bonus Incentive.

$\beta_0$  = Intercept of the regression line, regarded as constant

$\beta_{1-3}$  = Coefficient or slope of the regression line or independent variables

$\mu$  . Error term that represents other independent variables that affect the model but not captured

. ‘t’ = year or period and *i* = firm

The model specified above captured Related Party Transaction (RPT) as dependent variable, while management’s strategies (TP, TI, BI) as independent variables.

Table 3.1: Definition and Measurement of Research Variables

<b>Variables</b>	<b>Symbol</b>	<b>Measurement</b>	<b>Source</b>
<b>Dependent</b>			
Transfer Pricing	Related Party Transaction	$RPT = \frac{\text{Acc.Receivable from Related Parties}}{\text{Total Account Receivables}}$	Herianti and Chairina (2019); Nuradila and Wibowo (2018)
<b>Independent</b>			
Tax Planning	Effective Tax Rate	$ETR = \frac{\text{Tax Expenses}}{\text{Pretax Income}}$	Dyreng et al. (2008)
Tunneling Incentive	Tunneling Incentive	(measured by dichotomous data . Give “1” if a company distributed dividend while “0” if otherwise in a given year	Osho et al. (2021)
Bonus Incentive	Bonus Incentive	BI= Measured by the proportion of (current net profit to the increase in net Profit) i.e. net profit trend	Osho et al. (2021)

**Source: Author’s Compilation (2024).**

**DATA ANALYSIS**

**Descriptive Statistics**

Table 4.1 Descriptive Statistics

	RPT	ETR	TI	BI
Mean	0.114249	0.080146	0.948485	0.024901
Median	0.084532	0.061537	1.000000	1.000605
Maximum	0.741215	1.011430	1.000000	8.828512
Minimum	0.001287	-5.020000	0.000000	-322.7481
Std. Dev.	0.104743	0.301120	0.221382	17.94795
Skewness	0.270640	-0.462405	-0.057842	-0.470909
Kurtosis	1.085556	2.512585	1.746608	3.089036
Jarque-Bera	7.453450	859206.5	3783.061	1389431.
Probability	0.030267	0.076532	0.070650	0.076392
Sum	37.70205	26.44833	313.0000	8.217321
Sum Sq. Dev.	3.609502	29.83151	16.12424	105980.4
Observations	330	330	330	330

**Source: Researcher’s Compilations (2024)**

Table 4.1 provides a comprehensive overview of descriptive statistics for four pivotal variables – Related Party Transaction (RPT), Effective Tax Rate (ETR), Tunneling Incentive (TI), and Bonus Incentive (BI) – derived from data compiled by the researcher in 2024. The mean values

for RPT, ETR, TI, and BI stand at 0.114249, 0.080146, 0.948485 and 0.024901, respectively. Notably, medians closely align with means, signaling relatively symmetric distributions for RPT, ETR, and TI. However, BI exhibits a slightly higher median, while TI has higher mean indicative of a subtle rightward skew. The ranges further shed light on the data's spread, with RPT having a small range (0.739835) and ETR displaying substantial variability (range: 6.03143). Tunneling Incentive (TI) maintains a fixed range between 0 and 1, while Bonus Incentive (BI) spans from a minimum of -322.7481 to a maximum of 8.828512. Examining standard deviations, RPT's small value (0.104743) suggests limited variability, while BI's largest value (17.94795) points to considerable variability. TI displays a relatively low standard deviation (0.2379), signaling less variability, and ETR showcases a moderate standard deviation (0.301120), indicating a moderate degree of variability. Skewness and kurtosis values, which measure asymmetry and peakedness of distributions, respectively, reveal that ETR, TI and BI align closely to normal distributions with values near zero. RPT, however, exhibits a positive skewness, indicating a slight rightward skew. The skewness values, approximating zero, and kurtosis values within  $\pm 3$  are characteristic of normal distribution tendencies. Jarque-Bera statistics affirms the variables' normality, emphasizing the reliability of the statistics derived from the 330 observations for each variable.

**Correlation Analysis**

**Table 4.2.1 Correlation Analysis**

	RPT	ETR	TI	BI
RPT	1.000000			
ETR	0.365511	1.000000		
TI	0.064649	-0.009643	1.000000	
BI	0.061882	0.042957	0.100316	1.000000

**Source: Researcher’s Compilations (2024)**

Table 4.2 presents a correlation matrix elucidating the relationships among four crucial variables: Related Party Transaction (RPT), Effective Tax Rate (ETR), Tunneling Incentive (TI), and Bonus Incentive (BI). The correlation coefficients reveal the strength and direction of linear relationships between these pairs of variables. The correlation coefficient between RPT and ETR is 0.365511, signifying a positive, moderate correlation. This suggests a moderate positive relationship between RPT and ETR. As the number of RPTs increases, there is a tendency for the ETR to moderately increase. The correlation coefficient between RPT and TI is 0.064649, indicating a weak positive correlation, suggesting a minimal positive relationship between RPT and TI. Additionally, the correlation coefficient between RPT and BI is 0.061882, pointing to a weak positive correlation. This implies weak positive relationship between RPT and BI.

The correlation coefficient between ETR and TI is -0.00964, indicating a weak negative correlation, implying a minimal negative relationship between ETR and TI. Moreover, the correlation coefficient between ETR and BI is 0.04295, reflecting a weak positive correlation and suggesting a minimal positive relationship between ETR and BI. The correlation coefficient between TI and BI is 0.100316, indicating a positive, moderate correlation, suggesting a moderate positive relationship between Tunneling Incentive and Bonus Incentive. Despite these relationships, the coefficients being below 0.8 suggest no significant issue with correlation

**Variance Inflation Factors**

**Table 4.2.2 Variance Inflation Factors**

Variance Inflation Factors  
 Date: 07/30/24 Time: 08:20  
 Sample: 1 330  
 Included observations: 330

Variable	Coefficient Variance	Centered VIF	Tolerance 1/VIF
ETR	1.66E-05	1.023651	0.976895
TI	0.001453	1.056439	0.946576
BI	1.22E-05	1.033562	0.967278
C	0.005431	NA	NA

**Source: Researcher’s Compilations (2024)**

The Variance Inflation Factor (VIF) serves as a metric to evaluate multicollinearity within independent variables in regression analysis. In the current study, the VIF for Effective Tax Rate (ETR) is 1.023651, with a tolerance of 0.976895, indicating a minimal level of multicollinearity. This suggests that the variance of ETR is only slightly affected by the presence of other variables in the regression model. Similarly, Tunneling Incentive (TI) exhibits a VIF of 1.056439 and a tolerance of 0.946576, signifying a low degree of multicollinearity akin to ETR. For Bonus Incentive (BI), the VIF is 1.033562, and the tolerance is 0.967278, reinforcing the observation of a negligible level of multicollinearity. Collectively, the VIF values for ETR, TI, and BI, all approximating 1, suggest that the variance of each variable is not significantly inflated by the presence of others in the regression model. This underscores a minimal level of multicollinearity among these variables. The tolerance values, closely aligning with 1, further affirm the absence of substantial multicollinearity concerns. In essence, the analysis based on VIF and tolerance values indicates no noteworthy issue of

multicollinearity among Effective Tax Rate, Tunneling Incentive, and Bonus Incentive in the regression analysis.

**Panel least square regression method**

Panel least square regression method was employed to test the research objective one to three. The regression analysis was engaged to examine the relationship between Management’s strategies in tax planning and transfer pricing in Nigeria.

**Table 4.3: Estimation of Panel Least Square Results**

Dependent Variable: RPT

Method: Panel Least Squares

Date: 07/30/24 Time: 08:24

Sample: 2012 2022

Periods included: 11

Cross-sections included: 30

Total panel (balanced) observations: 330

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ETR	1.720891	0.452074	3.806659	0.0002
TI	0.100698	0.026138	3.852595	0.0001
BI	0.400639	0.047962	8.353296	0.0000
C	0.085291	0.025480	3.347331	0.0009
R-squared	0.608016	Mean dependent var		0.114249
Adjusted R-squared	0.601112	S.D. dependent var		0.104743
S.E. of regression	0.104801	Akaike info criterion		3.420794
Sum squared resid	3.580567	Schwarz criterion		3.447521
Log likelihood	-458.0968	Hannan-Quinn criter.		3.431528
F-statistic	69.77755	Durbin-Watson stat		2.121136
Prob(F-statistic)	0.000000			

**Source: Researcher’s Compilations (2024)**

Table 4.3 summarizes the outcomes of a Plane Least Squares (PLS) regression analysis, with Related Party Transaction (RPT) as the dependent variable and Effective Tax Rate (ETR), Tunneling Incentive (TI), and Bonus Incentive (BI) as independent variables.

The results indicate that the coefficient of ETR is 1.720891, with a standard error of 0.452074 and a t-statistic of 3.806659. The associated probability is 0.0002, demonstrating statistical significance. This suggests that an increase in ETR is positively linked to an increase in RPT. Similarly, the coefficient of TI is 0.100698, with a standard error of 0.026138 and a t-statistic of 3.852595, with a probability of 0.0001, indicating a significant positive effect of TI on RPT. The coefficient of BI is 0.400639, with a standard error of 0.047962 and a t-statistic of

8.353296. The associated probability is 0.0000, signifying statistical significance and suggesting a positive effect of BI on RPT.

The R-squared value is 0.608016, indicating that the model accounts for approximately 60.8% of the variability in RPT. This implies explanatory variables can explain 60.8% of changes in dependent variable used in the model while remaining 39.2% could be accounted for by other factors included in the disturbance (error) term. The F-statistic is 69.77755, with a very low associated probability (0.000000), signifying the overall statistical significance of the model. The regression analysis implies that ETR, TI, and BI significantly influence the number of Related Party Transactions. The high R-squared value suggests a substantial explanatory power of the model for the variability in RPT. The low F-statistic probability underscores the significance of at least one independent variable in explaining RPT variability. The Durbin-Watson statistic of 2.121136 indicates no significant autocorrelation.

### **Discussion of Findings**

The results of the first hypothesis align with expectations, revealing a significant positive relationship between Tax planning, represented by the Effective Tax Rate (ETR), and transfer pricing, represented by Related Party Transactions (RPT) in Nigeria. The obtained P-values (0.0002) and T-statistic (3.806659) were below the 5% significance level, leading to the rejection of the null hypothesis in favor of the alternate hypothesis. Consequently, an increase in Tax planning is associated with an additional unit of 1.720891 rise in Transfer pricing in Nigeria. This finding is consistent with the works of Murtanto and Bonita (2021), Cindy and Novyarni (2020), but contrary to the findings of Fazwa and Islahuddin (2022). The rationale behind this discovery may stem from companies strategically using related party transactions to optimize their tax liabilities. By adjusting prices in intercompany transactions, they can influence effective tax rates and potentially reduce overall tax burdens. The Nigerian tax system may provide specific incentives for certain related party transactions, leading to a positive correlation with effective tax rates.

Moving to the second hypothesis, the findings demonstrate a significant positive relationship between Tunneling Incentive (TI) and transfer pricing (RPT) in Nigeria. P-values (0.0001) and T-statistic (3.852595) below the 5% significance level, the alternate hypothesis is accepted, indicating that an increase in Tunneling Incentive (TI) leads to a 0.100698-unit addition to Transfer pricing in Nigerian MNC. This outcome is in line with the works of Cahyani et al. (2023) and Alfin et al. (2018), but contrary to the findings of Tambunan et al. (2023), Fazwa and Islahuddin (2022), Wijaya and Amalia (2020), Khotimah (2018), Saifudin et al. (2018). The observed positive relationship can be attributed to differences in tax regulations and incentives across jurisdictions that encourage companies to engage in tunneling activities through related party transactions. Companies may leverage these regulatory disparities to optimize tax outcomes, contributing to the positive relationship. Related party transactions may be used to shift profits to entities located in jurisdictions with lower tax rates, aligning with tunneling incentive strategies aimed at optimizing overall profitability and tax liabilities.

For the third hypothesis, the findings reveal a significant positive relationship between Bonus Incentives (BI) and transfer pricing (RPT) in Nigeria. The P-values (0.0000) and T-statistic

(8.353296) were below the 5% significance level, leading to the rejection of the null hypothesis. This implies that an increase in Bonus Incentive (BI) results in a 0.400639-unit rise in Transfer pricing in Nigerian MNC. This finding contradicts the works of Cahyani et al. (2023) and Tambunan et al. (2023). Possible reasons for this relationship include bonus incentives being tied to the financial performance of a company. When related party transactions are used strategically for transfer pricing, they can contribute to reported profits, potentially triggering higher bonus incentives. The positive relationship may reflect a correlation between successful transfer pricing practices and increased financial performance. Government policies or initiatives aimed at encouraging or regulating certain types of related party transactions may contribute to the positive relationship, with companies complying with such initiatives experiencing a correlation with their effective tax rates.

### **CONCLUSION AND RECOMMENDATIONS**

This study examined management strategies in tax planning and transfer pricing in Nigeria. The study concluded that there are significant positive associations between management strategies in tax planning and transfer pricing in Nigeria. Based on the analysis of the relationships between Tax planning, Tunneling Incentive, Bonus Incentives, and transfer pricing in the context of Nigeria's multinational corporations, the study recommends that management should encourage companies to adopt robust tax planning strategies that align with legal frameworks to optimize tax liabilities without resorting to aggressive tax avoidance. Those in charge of MNC affairs should provide incentives for companies to engage in responsible tax planning that adheres to international standards, fostering a balance between competitiveness and fiscal responsibility.

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